

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Iron County Medical Care Facility</u>	County <u>Iron</u>
Audit Date <u>December 31, 2005</u>	Opinion Date <u>February 23, 2006</u>	Date Accountant Report Submitted To State: <u>April 6, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>750 Trade Centre Way, Suite 300</u>	City <u>Portage</u>	State <u>MI</u>	ZIP <u>49002</u>
Accountant Signature 			

Iron County Medical Care Facility

**Combined Financial Report
with Additional Information
December 31, 2005**

Iron County Medical Care Facility

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Independent Auditor's Report

To the Board of Directors
Iron County Medical Care Facility

We have audited the accompanying balance sheet of Iron County Medical Care Facility (a component unit of Iron County) (the "Facility") as of December 31, 2005 and 2004 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iron County Medical Care Facility at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

February 23, 2006

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Iron County Medical Care Facility

Combined Balance Sheet

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 392,575	\$ 364,283
Resident accounts receivable (Note 3)	770,056	808,799
Other current assets	149,985	155,247
Total current assets	1,312,616	1,328,329
Assets Limited as to Use (Note 2)	370,784	609,459
Property and Equipment (Note 4)	17,383,587	7,440,425
Total assets	\$ 19,066,987	\$ 9,378,213
Liabilities and Net Assets		
Current Liabilities		
Accounts payable - Vendors	\$ 457,270	\$ 437,943
Accounts payable - Construction	170,227	-
Resident trust liability	33,116	29,341
Current portion of long-term debt (Note 5)	138,879	127,902
Estimated third-party payor settlements	87,429	175,000
Accrued liabilities and other:		
Accrued compensation and related liabilities	484,703	280,979
Accrued compensated absences	828,950	689,043
Accrued interest	25,992	26,834
Deferred revenue - Proportionate share program	-	40,669
Resident deposits and advances	14,500	8,500
Total current liabilities	2,241,066	1,816,211
Long-term Debt (Note 5)	3,600,414	3,633,293
Net Assets		
Invested in capital assets - Net of related debt	13,644,294	3,677,964
Restricted for debt service	169,799	233,150
Unrestricted	(588,586)	17,595
Total net assets	13,225,507	3,928,709
Total liabilities and net assets	\$ 19,066,987	\$ 9,378,213

Iron County Medical Care Facility

Combined Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
Operating Revenue		
Net service revenue	\$ 11,912,021	\$ 10,984,460
Other operating revenue	56,723	32,218
Proportionate share reimbursement	246,653	302,720
Total operating revenue	12,215,397	11,319,398
Operating Expenses		
Salaries	7,467,066	6,649,772
Other expenses	5,575,144	5,174,327
Total operating expenses	13,042,210	11,824,099
Operating Loss	(826,813)	(504,701)
Other Income (Expense)		
Interest income	11,400	16,031
Contributions	909	2,480
Interest expense	(208,739)	(208,959)
Total other income (expense)	(196,430)	(190,448)
Deficiency of Revenue Over Expenses	(1,023,243)	(695,149)
Contributions from Other County Funds	10,320,041	268,517
Increase (Decrease) in Net Assets	9,296,798	(426,632)
Net Assets - Beginning of year	3,928,709	4,355,341
Net Assets - End of year	\$ 13,225,507	\$ 3,928,709

Iron County Medical Care Facility

Combined Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 11,863,193	\$ 11,128,273
Cash paid to employees and suppliers	(12,158,084)	(11,341,793)
Cash received from Proportionate Share Program	205,984	257,848
Other operating receipts	56,723	32,218
Net cash (used in) provided by operating activities	(32,184)	76,546
Cash Flows from Noncapital Financing Activities		
Resident trust deposits	3,775	915
Resident security deposits	6,000	1,500
Contributions from other county funds	366,145	268,517
Contributions	909	2,480
Net cash provided by noncapital financing activities	376,829	273,412
Cash Flows from Investing Activities		
Proceeds from sale of investments	63,351	42,161
Interest received	11,400	16,031
Net cash provided by investing activities	74,751	58,192
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(141,902)	(121,061)
Interest paid on long-term debt	(208,739)	(209,898)
Purchase of property and equipment	(215,787)	(266,898)
Net cash used in capital and related financing activities	(566,428)	(597,857)
Net Decrease in Cash and Cash Equivalents	(147,032)	(189,707)
Cash and Cash Equivalents - Beginning of year	740,592	930,299
Cash and Cash Equivalents - End of year	\$ 593,560	\$ 740,592
Balance Sheet Classification of Cash and Cash Equivalents		
Current assets	\$ 392,575	\$ 364,283
Assets limited as to use	200,985	376,309
Total cash	\$ 593,560	\$ 740,592

Iron County Medical Care Facility

Combined Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (826,813)	\$ (504,701)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	516,749	385,759
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	38,743	(106,186)
(Increase) decrease in other current assets	5,261	(4,650)
Increase in accounts payable	19,327	240,106
Increase (decrease) in other accrued expenses	342,789	(138,910)
Increase (decrease) in third-party settlement	(87,571)	250,000
Decrease in deferred revenue	(40,669)	(44,872)
Net cash (used in) provided by operating activities	<u><u>\$ (32,184)</u></u>	<u><u>\$ 76,546</u></u>

Significant noncash investing, capital, and financing transactions for 2005 were as follows:

- The County transferred fixed assets to the Facility in the amount of \$9,953,896.
- The Facility financed fixed asset additions of \$120,000 via a note with the County.
- The Facility has construction related accounts payable of \$170,227.

There were no significant noncash investing, capital, and financing transactions for 2004.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies

Iron County Medical Care Facility (the "Facility") is a component unit of Iron County, Michigan. The Facility is a 200-bed, long-term medical care unit owned and operated by Iron County (the "County"). The Facility also operates a 25-bed assisted-living unit. It is governed by the Iron County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets Limited as to Use - Assets limited as to use include assets held by trustees under indenture agreements and designated assets set aside by the board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. During the year ended December 31, 2005, construction of a 71-bed addition to the Facility was completed. During construction, the costs of the project were accounted for on the County records. At time of completion, these costs were transferred from the County to the Facility records.

Resident Trust Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Proportionate Share Reimbursement Program - During the years ended December 31, 2005 and 2004, the Facility participated in this program sponsored by the State of Michigan.

In 2005, this program was discontinued by the State. The Facility received one payment in June 2005. The transaction was recorded into revenue in relation to the State fiscal year ended September 30, 2005.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the State fiscal year ended September 30, 2004. The second transaction in October was for the State fiscal year ended September 30, 2005 and therefore was recognized one quarter of revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Net assets restricted for debt service consist of amounts deposited with a trustee as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2005	2004
Percent of revenue:		
Medicaid	76	84
Medicare	12	8

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for in-resident routine service costs per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the County out of voter-approved millage funds and is not recorded in the Facility's operating expenses.

Reclassifications - Certain prior year classifications have been changed to correspond with 2005 classifications.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2005		2004	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County treasurer	\$ 264,620	\$ 200,985	\$ 333,373	\$ 376,309
Bank	127,205	-	30,235	-
Petty cash	750	-	675	-
Investments	-	169,799	-	233,150
Total	<u>\$ 392,575</u>	<u>\$ 370,784</u>	<u>\$ 364,283</u>	<u>\$ 609,459</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility funds as these funds are only a portion of the total County deposits.

It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2005	2004
Resident accounts receivable	\$ 889,627	\$ 772,346
Less allowance for:		
Uncollectible accounts	(16,635)	(16,635)
Medicaid interim payment (advances) receivable	<u>(102,936)</u>	<u>53,088</u>
Net resident accounts receivable	<u>\$ 770,056</u>	<u>\$ 808,799</u>

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 3 - Resident Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2005	2004
Medicare	16	6
Medicaid	72	87
Other payors	12	7
Total	100	100

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	2005	Depreciable Life - Years
Land and land improvements	\$ 445,760	\$ -	\$ -	\$ 445,760	10-25
Building	9,089,473	10,133,465	-	19,222,938	10-40
Fixed equipment	1,030,909	-	-	1,030,909	4-20
Moveable equipment	1,516,221	326,446	266,898	2,109,565	4-20
Construction in progress	266,898	-	(266,898)	-	
Total	12,349,261	10,459,911	-	22,809,172	
Less accumulated depreciation:					
Land and land improvements	385,724	13,944	-	399,668	
Building	2,413,798	387,171	-	2,800,969	
Fixed equipment	954,492	15,903	-	970,395	
Moveable equipment	1,154,822	99,731	-	1,254,553	
Total	4,908,836	\$ 516,749	\$ -	5,425,585	
Net carrying amount	\$ 7,440,425			\$ 17,383,587	

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 4 - Property and Equipment (Continued)

Cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	2004	Depreciable Life - Years
Land and land improvements	\$ 445,760	\$ -	\$ -	\$ 445,760	10-25
Building	9,098,610	-	(9,137)	9,089,473	10-40
Fixed equipment	1,044,869	-	(13,960)	1,030,909	4-20
Moveable equipment	1,493,124	-	23,097	1,516,221	4-20
Construction in progress	-	266,898	-	266,898	
Total	12,082,363	266,898	-	12,349,261	
Less accumulated depreciation:					
Land and land improvements	408,854	17,988	(41,118)	385,724	
Building	2,114,303	258,377	41,118	2,413,798	
Fixed equipment	916,974	16,969	20,549	954,492	
Moveable equipment	1,082,946	92,425	(20,549)	1,154,822	
Total	4,523,077	\$ 385,759	\$ -	4,908,836	
Net carrying amount	\$ 7,559,286			\$ 7,440,425	

During the year ended December 31, 2005, a 71-bed addition to the Facility was completed. The costs of the project were paid from County bonds. The bonds will be paid off by a voter-approved millage. Building costs totaling \$9,953,896 were transferred from the County to the Facility in 2005.

Note 5 - Long-term Debt

To finance the assisted-living project, the facility entered into a capital lease arrangement with Iron County. The Facility will make lease payments to the County equal to the required principal and interest payments on the bonds acquired by the County. The bond yield currently is 5.44 percent, with a final maturity of November 14, 2022. Principal and interest are due semiannually on May 14 and November 14.

To finance renovations to a lift station, the Facility entered into an agreement with Iron County. The note has an interest rate of 6.24 percent, with a final maturity of August 12, 2023. Principal payments are due on August 12 and interest payments are due on February 12 and August 12.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Debt (Continued)

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>2004</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2005</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 3,761,195	\$ -	\$ (127,902)	\$ 3,633,293	\$ 134,879
Note payable	<u>-</u>	<u>120,000</u>	<u>(14,000)</u>	<u>106,000</u>	<u>4,000</u>
Total	<u>\$ 3,761,195</u>	<u>\$ 120,000</u>	<u>\$ (141,902)</u>	<u>\$ 3,739,293</u>	<u>\$ 138,879</u>

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>2003</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2004</u>	<u>Amounts Due Within One Year</u>
Bonds payable	<u>\$ 3,882,256</u>	<u>\$ -</u>	<u>\$ (121,061)</u>	<u>\$ 3,761,195</u>	<u>\$ 127,902</u>

The following is a schedule by years of bond principal and interest as of December 31, 2005:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 138,879	\$ 200,896
2007	146,316	193,711
2008	154,084	185,735
2009	162,504	177,106
2010	172,197	168,221
2011-2015	1,001,680	697,389
2016-2020	1,306,361	393,216
2021-2023	<u>657,272</u>	<u>50,149</u>
Total payments	<u>\$ 3,739,293</u>	<u>\$ 2,066,423</u>

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 6 - Retirement Plan

As disclosed in Note 1, the Facility is a component unit of Iron County. Iron County, including the Facility, participates in the Michigan Municipal Employees' Retirement System (the "System"). The Michigan Municipal Employees' Retirement System is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to County of Iron, Courthouse, 2 South Sixth Street, Crystal Falls, MI 49220.

The obligation to contribute to and maintain the System for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee ranging from 1.77 percent to 4.81 percent of eligible gross earnings as defined by the System. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 10 years. Facility contributions for the plan years ended December 31, 2005, 2004, and 2003 were \$503,565, \$457,425, and \$451,426, respectively.

Note 7 - Postretirement Benefits

In addition to the pension benefits described above, the Facility provides postretirement health care benefits to all employees who retire from the Facility on or after attaining age 62 with at least 10 years of service. The Facility pays health insurance premiums for the retiree until they reach age 65. Employees of the former Crystal Manor who retired prior to July 1, 2002 have their health insurance paid until death. Currently, 11 retirees meet these eligibility requirements. Expenses for postretirement health care benefits are recognized monthly as premiums are paid. Approximately \$60,000 and \$80,000 of costs pertaining to postretirement benefits were included in the Facility's health insurance expense for the years ended December 31, 2005 and 2004, respectively.

Note 8 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for workers' compensation claims, and participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

Iron County Medical Care Facility

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insurance limits, regardless of when the claims are reported to the carrier. There are no known outstanding or pending claims at December 31, 2005.

Note 9 - Contingency

During the year ended December 31, 2005, a 71-bed addition was added to the Facility and patients previously living at Crystal Manor were transferred to the Facility. The Crystal Manor building is owned by the City of Crystal Falls; however, the Facility has entered into an agreement that if the Crystal Manor building is not sold, the Facility has committed up to \$250,000 toward the demolition of the building. As of December 31, 2005, no decisions on the future of the Crystal Manor building have been made.

Additional Information



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To the Board of Directors
Iron County Medical Care Facility

We have audited the financial statements of Iron County Medical Care Facility as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The following combining statement of revenue, expenses, and changes in net assets is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule is presented for the purpose of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic financial statements. The combining information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

February 23, 2006

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Iron County Medical Care Facility

Combining Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Iron County Medical Care Facility	Crystal Manor	Total
Operating Revenue			
Net service revenue	\$ 10,882,220	\$ 1,029,801	\$ 11,912,021
Other operating revenue	53,046	3,677	56,723
Proportionate share reimbursement	246,653	-	246,653
Total operating revenue	11,181,919	1,033,478	12,215,397
Operating Expenses			
Salaries	6,776,394	690,672	7,467,066
Other expenses	4,913,659	661,485	5,575,144
Total operating expenses	11,690,053	1,352,157	13,042,210
Operating Loss	(508,134)	(318,679)	(826,813)
Other Income (Expense)			
Interest income	11,259	141	11,400
Contributions	909	-	909
Interest expense	(208,739)	-	(208,739)
Total other income (expense)	(196,571)	141	(196,430)
Deficiency of Revenue Over Expenses	(704,705)	(318,538)	(1,023,243)
Contribution from Other County Funds	10,320,041	-	10,320,041
Increase (Decrease) in Net Assets	9,615,336	(318,538)	9,296,798
Transfer of Net Assets	(318,538)	318,538	-
Increase in Net Assets	9,296,798	-	9,296,798
Net Assets - Beginning of year	3,928,709	-	3,928,709
Net Assets - End of year	<u>\$ 13,225,507</u>	<u>\$ -</u>	<u>\$ 13,225,507</u>